

UTILITY ADVISORY BOARD

Thursday, September 20, 2012

8:00 a.m.

**City of Grand Rapids - Water Administration Building
1900 Oak Industrial Drive, NE**

AGENDA

1. Approval of Minutes – August 16, 2012 (attached)
2. Public Comment on Agenda Items
3. Transformation Update
- 311 System (attached)
4. Water Conservation (attached)
5. Contract Awards, August 2012 (attached)
6. Updates:
 - a. MMRMA Risk Avoidance Program Grant
 - b. Customer Information System
 - c. REGIS Update
 - d. SSS 2012 – Moody's affirms Aa1 rating (attached)
7. Items from Members
8. Next Meeting – Thursday, October 18, Where?
9. Adjournment

**Utility Advisory Board
August 16, 2012**

1. Call to Order:

The meeting was called to order by Chair Eric DeLong at 8:00 a.m. at the Grand Rapids Water Administration Building at 1900 Oak Industrial Drive NE.

2. Attending:

Members Attending:

Bill Cousins
Mark De Clercq
Eric DeLong
Wayne Jernberg
Steve Kepley (alternate)
Mike Lunn
Travis Mabry (alternate)
Pam Ritsema
Ed Robinette
Chuck Schroeder
Joellen Thompson
Linda Wagenmaker (alternate)
Josh Westgate

Others Attending:

John Allen
Paul Klimas

Members Absent:

Scott Buhner
Brian Donovan
George Haga
Cathy VanderMeulen
Toby VanEss
Ron Woods

3. Minutes:

Motion: 12-10: Ed Robinette supported by Bill Cousins moved to approve the minutes of the June 21, 2012, meeting of the Utility Advisory Board as presented. Motion carried.

4. Public Comment:

There was no public comment.

5. Budget Detail Follow Up

Eric DeLong asked if members had any questions on the budget information that was provided to them. There were no questions or discussion.

6. Water/Sewer Quarterly Financial Reports

Scott Saindon distributed information on Preliminary Revenue and Expense fluctuations for Water and Sewer and reviewed them briefly. In Water, meter sales is probably the highest revenue item due mainly to the increase in the rate. There was a significant decrease in permanent employee expense, down 7%. He noted that there were less water main breaks due to the mild winter last year.

Bill Cousins asked why General Pension was up 38%. Eric DeLong explained that this is self-funded and the rate is actuarially determined.

In Sewer, Mr. Saindon reported that there is almost a 2% increase in total revenues. Interest on investments continues to decrease due to low rates currently available. There was a one-time settlement related to River House that was paid this year. There was an increase in personal services expenses. Permanent employee expense here had a small increase. GVRBA payments declined.

7. Statistical Data Reports

Scott Saindon distributed information on daily treated flow, treated compared to rainfall, and billed flow and reviewed each chart briefly. He noted that July will be a big month for billed flow for Water, but it isn't shown yet on this chart.

Mark De Clercq asked what this tells us about the behavior of the sanitary sewer system if the amount of flow is increasing over time. Mike Lunn indicated that dry weather flow is decreasing over time, and these numbers don't include CSO's or the MARB.

8. ACSET/Individual Circuit Breaker Report

Scott Saindon then reviewed the reports from ACSET. He distributed a map showing the distribution of customers helped by this program during the year. He referred to the financial summary in the agenda packet. All of the funds have been paid out, and all but \$162 had been paid out as of June which was just a payment to one more client that needed to be made yet. 110 households were served. 159 failed the screening process. ACSET is working to obtain some additional sources of funding. Eric DeLong noted that the grant to individual customers went up by approximately \$200 so the need seems greater. Scott Saindon noted that there has been discussion on lowering the cap of \$1,000 or the qualification criteria to help spread the dollars to more customers. Joellen Thompson noted that staff will be meeting with ACSET prior to next year to discuss these items.

9. GIS Service Review

Pam Ritsema reported that staff were asked to review how we provide GIS services to the City and to the UAB. A staff team met with REGIS twice. They have offered an option

to the City that includes a 4-year phase-in to spread some of the costs out. They weren't interested in offering on-site GIS services.

Currently, Water and ESD have an allocated charge from the IT department for GIS. They also hire on-site GIS services to do work specific to ESD and Water. Under our current model, our FY13 estimate of costs is \$88,000 and \$132,000 for on-site staff. To rejoin REGIS our IT costs would be \$35,000, and we would still need on-site staff and would need to pay REGIS dues. The total cost would be greater than what we currently pay for GIS services.

The City and County continue to meet with REGIS to determine if there is a way for them to partner in participating with REGIS.

Paul Klimas, IT Director, is in attendance if members have questions on GIS functionality. We expect IT costs to go down in FY13 due to no longer using the mainframe for CIS.

The other item staff looked at was the availability and accuracy of the data in GIS. We believe we are up to date on our as-builts and that things should be accurate.

Bill Cousins asked about \$336,000 for Task 5 last year. Linda Wagenmaker explained that it had to do with an adjustment. This together with a negative adjustment last period of \$180,000 added to make a total adjustment of \$180,000. Mr. Cousins asked if these amounts would be given back to the customers. Ms. Wagenmaker indicated that there is no trueing up of the Rate Study done. You can't just look at the Task 5 item by itself because there are other things that impact this in the rate study.

Steve Kepley asked about the 2012 Rate Study as compared to 2013. Pam Ritsema noted that in this table she was trying to compare if we are a member of REGIS and if we are not a member of REGIS. Mr. Kepley asked if there should be a sub-meeting to answer some more specific questions on this. Eric DeLong noted that we have reported what the director of REGIS has said. Ms. Ritsema indicated that she has the information in writing that she could provide to Mr. Kepley if he would like. Eric DeLong indicated that any additional meetings need to be held in the correct context of whether the City and the County are going to rejoin REGIS. There are some conflicting messages coming from REGIS maybe. The City and County will continue to meet with REGIS.

Steve Kepley indicated that he hears one thing from the City and another from REGIS so he feels a meeting of all parties may be helpful. It was decided that a meeting should be scheduled with Kentwood, including Ron Woods specifically. Pam Ritsema will follow up on this.

Bill Cousins noted that he feels the customer communities are paying twice for GIS services, but he appreciates the work that has been done to try to resolve this issue. Eric DeLong noted that you don't pay for the preparation of your water and sewer fabric, we pay for it for you so there shouldn't be a double payment. Mr. Cousins noted that the

language the City uses needs to be converted for use by the customer communities which is an additional cost. Mr. Klimas noted that this should all be in the same language, and Wayne Jernberg added that we could provide the information directly to the customer communities rather than to REGIS if they wanted. Bill Cousins suggested that he meet with Paul Klimas and maybe do a test to see if it works well to have the data going directly to the communities. Eric DeLong agreed that this should be investigated more.

10. Water Conservation and Water Conservation Rates

Eric DeLong referred to the information provided in the meeting packet. We have talked about Water Conservation Rates in the past and our Special Counsel is of the opinion that we can't do it with our rate system. He asked that members review this information, and we will address this issue again at the next meeting when Cathy VanderMeulen can hopefully be in attendance.

11. Transformation Update – Installation of LED's

Mike Lunn reported that they have converted 28 Mercury Vapor to 10 LED lamps. The comparison of costs shows a return on investment of about 3.6 years. Illumination levels show that we actually have more illumination with these lamps. We now need to see how long they will last, but it is a successful project. We relamp on an ongoing basis and will look for additional areas to install the LED's as we can.

12. Contract Awards for June and July 2012

Mark De Clercq referred members to the reports provided in the meeting materials and reviewed them briefly. He noted that they have combined some columns in the report now so that Water and Sewer are shown together for each month.

13. Updates

Customer Information System

Wayne Jernberg reported that final acceptance discussions are ongoing. They are completing some additional testing. Preliminary planning for Phase 5 is underway.

Eric DeLong reported that the City is looking at implementing a 311 Customer Service System for the City. The idea is to have a very small transfer rate so that the person answering the call will provide the information directly to the caller. This will mean some large changes in Water customer service if this moves forward. This looks like it would save significant dollars for the Water and Sewer Systems.

Incentives to Increase Billed Flow

Eric DeLong reported that there is nothing new to report on this. He has talked to the City's Economic Development Director regarding this so she is aware of this and will keep her eyes open to these types of processors.

CE Rate Case

Eric DeLong referred members to the letter provided in the meeting materials. He noted that the intervention was successful.

14. Items from Members

Chuck Schroeder thanked members for supplying letters of support for a grant application.

Mike Lunn reported that the investigation on the tank is done. They will be doing some stabilization of the tank. In order to do this, the tank will be disassembled and then reassembled. There are several other items that will need to be addressed as this is completed. He feels final costs will be about \$350,000 to \$500,000.

Linda Wagenmaker reported that \$30,000,000 in sewer bonds are being worked on now. Mike Lunn noted that this is more than we expected because rates are low currently so a couple of projects were moved up to take advantage of this.

Joellen Thompson reported that they are working with the new bill print outsourcer, and things are going well. They are working to redesign the bill for improved readability. Then they will be working on online bill payment next.

15. Next Meeting:

The next meeting of the UAB is scheduled for Thursday, September 20, 2012, at Grand Rapids Water Administration Building, 1900 Oak Industrial Drive NE.

/nlm

MEMORANDUM

CITY OF GRAND RAPIDS



Date: September 5, 2012

To: Gregory A. Sundstrom
City Manager

From: Eric DeLong
Deputy City Manager

Subject: Recommendation Regarding Transformation Fund Investments

Staff is continuing to advance the work of transformation by making proposals to the Transformation Investment Managers that address key Transformation Investment Plan value streams. Investment Managers have completed review of a proposal and is recommending that Transformation Fund assets be allocated for the following project.

1. 311 Customer Service System/Operations \$336,599

On August 15, 2012, the Transformation Investment Managers supported funding with total expenditures in the amount of \$336,599 for Phase II – the Implementation Plan for the 311 Customer Service operations from the Transformation Investment Fund. The 311 Customer Service System is an integrated customer service center for citizens to have a “one stop shop” place to handle their information and service needs.

A 311 CSS establishes a single communication operation which citizens can easily use to handle all non-emergency calls or walk-up customer service needs; general inquiries, registrations, complaints, bill and payment information requests, etc. The City currently has over 200 phone numbers, answers over 370,000 non-emergency calls a year and manages thousands of walk-in customers with service needs. Current customer service tools are fragmented. This initiative will put into place a 311 Call Center operation to transform and improve how the City provides customer service to its citizens and how the citizens are able to better access the services provided.

The 311 CSS provides an organization with opportunity to customize its customer service standards, protocols, outcomes and performance/accountability metrics. It also increases data resources on a citywide basis that could be used for evaluation and strategic training tools to improve the City's customer service satisfaction level.

By consolidating the customer service operations in an efficient way, citizens will be able to economize on their time as well.

Phase II – the Implementation Plan of a customized 311 CSS will result in both enhanced customer service quality for Grand Rapids citizens and sustained return on investment to the City (estimated to be \$802,000 a year) for the next five years.

This resolution seeks authorization for the financing of the Phase II – the Implementation Plan from the Transformation Investment Fund (TIF). Details of the funding strategy are outlined below:

(1) Authorization Request from the TIF

A. One time implementation cost for GOF departments	\$173,315
B. One time operational cash flow GOF departments	<u>\$163,284</u>
Total GOF	\$336,599

(2) Non GOF Investment

A. Non GOF funds one-time Implementation cost:	\$500,105
(Water-\$292,161/Streets-\$21,004/ Refuse-\$158,383/Parks-\$28,557)	
B. Non GOF funds operational cash flow advance:	<u>\$448,268</u>
(Water-\$261,878/Streets-\$18,836/ Refuse-\$141,966/Parks-\$25,588)	
Total Non GOF	\$948,373

(3) Authorization Summary Notes of Advancement from TIF

- Will be repaid over a five year period (60-months).
- The Water and Refuse Departments will have all customer service cost accounted in their funds (Sewer will be appropriately billed its share through the Water Department).
- The cost center for the 311 CSS will remain in the IT budget as a separate fund.
- The cost for the 311 CSS will be determined and billed to departments based on service delivery on a quarterly basis one month after the quarter ends.
- The Advance Allocation to the Non GOF departments will be amortized over a five year period and added to the quarterly billing cost.
- Advanced Allocations to Non GOF departments will be prorated on the same basis as the quarterly prorate billing methodology used above.

The attached resolution would approve appropriation of Transformation Fund resources for the GOF portion of the 311 implementation. The required budget amendments and contract award for the Phase II – Implementation Plan will be presented at the September 25 City Commission meeting.

Attached

cc: Scott Buhrer
Mari Beth Jelks

YOUR COMMITTEE OF THE WHOLE recommends the following resolution authorizing a Transformation Fund Investment in the amount of \$336,599.

CORRECT IN FORM

DEPARTMENT OF LAW

COMMITTEE OF THE WHOLE

Com. _____, supported by Com. _____, moved adoption of the following resolution:

WHEREAS, the Transformation Advisors recommended an implementation plan that clearly assigned tasks and time specific milestones to ensure that necessary outcomes are achieved; and

WHEREAS, the Transformation Investment Plan specifies objectives and outcomes from FY2011 through FY2016; and

WHEREAS, resources are necessary to fund major investments that will produce transformational returns in the near term; and

WHEREAS, the City Commission has established the Transformation Fund; and

WHEREAS, the Transformation Investment Managers have reviewed and approved a request to invest \$336,599 for a 311 Customer Service System; therefore

RESOLVED, that a Transformation Fund investment of \$336,599 for the purpose of establishing Phase I of a 311 Customer Service System is approved from the Transformation Fund, SRTRN207.

**Water/Sewer UAB Report
August 2012**

Item 5

Project Name	Contractor	Award Date	Substantial Completion Date	Final Completion Date	Water Fund Authorized NTE Amt	Sewer Fund Authorized NTE Amt	Est. Year for Rates	Integrated (Y/N)
Demolition and Removal of Sludge Storage Tanks and Appurtenant Structures at the Wastewater Treatment Plant	L D Docsa Associates, Inc	8/28/12	9/1/13	10/1/13	\$ -	\$ 2,255,720.00	2014	Integrated

-----Original Message-----

From: MOODY'S EPI [<mailto:epi@moodys.com>]

Sent: Tuesday, September 04, 2012 6:10 PM

To: Wallace, Jana

Subject: GRAND RAPIDS (CITY OF) MI

Moody's assigns Aa1 rating to the City of Grand Rapids' (MI) \$30 million Sanitary Sewer System Improvement Revenue Bonds, Series 2012

Aa1 rating applies to \$264.3 million of post-sale senior lien revenue debt

GRAND RAPIDS (CITY OF) MI

GRAND RAPIDS (CITY OF) MI SEWER ENTERPRISE Sewer Enterprise Michigan

Moody's Rating

Issue	Rating
Sanitary Sewer System Improvement Revenue Bonds, Series 2012	Aa1
Sale Amount \$30,000,000	
Expected Sale Date 09/18/12	
Rating Description Revenue: Government Enterprise	

Moody's Outlook - NOO

NEW YORK, September 04, 2012 -- Moody's Investors Service has assigned a Aa1 rating to the City of Grand Rapids' (MI) \$30 million Sanitary Sewer System Improvement Revenue Bonds, Series 2012. Concurrently, Moody's has affirmed the Aa1 rating on the city's outstanding senior lien revenue debt, of which \$264.3 million will be outstanding following the current sale.

SUMMARY RATING RATIONALE

Debt service on the bonds is secured by a senior lien on net revenues of the city's sewage disposal system. Proceeds will be used to finance various improvements to the system, including the separation of combined sanitary and storm sewers, rehabilitation of existing sewer mains, and improvements to the city's wastewater treatment plant. The Aa1 rating reflects the satisfactory legal covenants of the bonds, the enterprise's large and diverse service area, solid system liquidity, sound senior lien debt service coverage that is projected to remain stable, and above-average debt ratio.

STRENGTHS

- Diverse service area that includes the City of Grand Rapids (general obligation rated Aa2/stable outlook) and neighboring communities
- Solid liquidity as measured by net working capital and unrestricted cash reserves
- Unlimited rate setting authority coupled with an established methodology to annually adjust rates to maintain liquidity and sound senior lien debt service coverage

CHALLENGES

- Relatively weak debt service reserve requirement with fund primarily backed by surety policies
- Total debt service coverage (senior and junior lien) is narrow compared to similarly-rated entities
- Above-average debt ratio

DETAILED CREDIT DISCUSSION

SATISFACTORY LEGAL COVENANTS DESPITE WEAKER RESERVE REQUIREMENT

The legal provisions for the current bonds are satisfactory and provide adequate security for bondholders, despite inclusion of a relatively weak debt service reserve requirement. The enterprise is required to maintain a debt service reserve fund at the lesser of (1) maximum annual debt service (MADS) on outstanding debt or (2) the sum of the maximum annual interest payments on each series of outstanding bonds, as determined on the date of issuance of each series. Following the sale of the current bonds, the total balance in the senior lien reserve fund will be comprised of approximately 42% cash, with the remainder funded by surety policies provided by National Public Finance Guarantee Corp (insurance financial strength rated Baa2/negative outlook). In the event of an unexpected inability on the part of the surety provider to meet its obligation, the City Commission has authorized the use of cash, from either available funds or the sale of bonds, to fully fund the reserve. The enterprise's current unrestricted cash reserves are more than sufficient to fully fund the debt service reserve fund.

The rate covenant calls for net revenues that provide at least 120% of annual debt service coverage on senior lien bonds. The ordinance also provides two options for a senior lien additional bonds test. The first is 120% of MADS by net revenues in the preceding twelve months, allowing for pro-forma rate adjustments. The second option is a two-prong test that requires 120% coverage of MADS on a pro-forma basis in the five years following the issuance of additional senior lien bonds and limiting post-sale MADS to 110% of average annual debt service. The additional bonds test for junior lien bonds is 100% of average annual debt service on all outstanding revenue debt.

LARGE AND DIVERSE SERVICE AREA THAT INCLUDES GRAND RAPIDS AND NEIGHBORING COMMUNITIES

Located in Kent County (Aaa/stable outlook), the enterprise provides collection and treatment of wastewater for the City of Grand Rapids, as well as a number of neighboring communities. The utility maintains 30-year retail or wholesale agreements with nine neighboring municipalities, including the cities of East Grand Rapids, Kentwood, and Walker (Aa2/negative outlook). Usage within the City of Grand Rapids accounts for approximately 62% of annual revenues, while usage in Kentwood and Walker accounts for 12.6% and 7.5% of revenues, respectively. Every five years, the municipal customers have the option to renew the agreements, effectively resulting in a 25-year termination notification. The current agreements extend through 2038 and are subject to renewal next year.

The total number of customer accounts has grown modestly from 73,465 in 2007 to an estimated 74,411 in 2012. The service area is also relatively diverse, as the top ten customers comprised a modest 5.6% of estimated fiscal 2012 operating revenues. The largest user, Spectrum Health (revenue bonds rated Aa3/stable outlook), accounted for a minimal 0.9% of revenues. Additional top customers of the utility include Calvin College, St. Mary's Hospital, and Grand Rapids Public Schools (Aa3).

Despite the diverse nature of the customer base, the city and regional economy maintain close ties to the durable goods industry. Downsizing within both the automotive and furniture manufacturing sectors contributed to a high city unemployment rate of 14.9% in 2009. While the rate has come down to 10% in June 2012, it continues to exceed that of the state (9.2%) and nation (8.4%) as measured in the same time period. Resident income levels within the city also fall below those of the state and nation, with median family income equivalent to 76% and 72% of state and national figures, respectively, according to 2006-2010 American Community Survey estimates. The city also experienced its first population loss in decades, recording a 4.9% drop in the 2010 census, though a share of the decline was offset by modest growth in neighboring communities served by the sewer enterprise. Notwithstanding the continuation of economic challenges, the city and region are poised to remain significant hubs of economic activity on the western side of the state. This role is bolstered in part by the presence and stability of multiple healthcare and educational institutions.

FINANCIAL OPERATIONS EXPECTED TO REMAIN STABLE AND HEALTHY LIQUIDITY TO BE MAINTAINED GIVEN STRONG RATE SETTING PRACTICES

Operations of the Grand Rapids sewer enterprise will likely remain steady going forward owing to continued stability of the customer base and annual review of sewer rates. Net working capital has steadily increased over the past three years to \$41.4 million, or a very strong 194.4% of operating and maintenance (O&M) expenditures, at the close of fiscal 2011. Just under half of net working capital is held in the form of unrestricted cash, which totaled \$20.5 million, or 96.3% of O&M, in fiscal 2011. Management reports that available cash reserves increased to approximately \$26 million in fiscal 2012, but are expected to decline back to \$20 million at the close of fiscal 2013 due to planned uses of cash to support capital improvements. Officials project maintenance of at least \$20 million in unrestricted cash in the coming years.

Since 1977, the city has conducted an annual rate study based on an established rate setting

methodology that projects annual revenue requirements. Management conducts the study from August through November of each year to determine the amount of revenues necessary to meet historical cost requirements plus known cost increases. Rates are calculated from the revenue requirements and reported to the city commission and municipal customers prior to implementation on January 1st of each year. Following material increases in rates from fiscal 2007 through fiscal 2010, the utility reduced rates by a modest 3.3% for calendar year 2011 based on the projected revenue requirements. Rates were increased by 2.9% for calendar year 2012 and management projects an average 1% annual growth in rates over the next five years.

SOUND COVERAGE OF ANNUAL SENIOR LIEN DEBT SERVICE; MADS COVERAGE EXPECTED TO IMPROVE WITH FURTHER RATE INCREASES

Annual coverage of senior lien debt service has remained sound in recent years and is expected to remain relatively stable going forward. Fiscal 2011 net revenues provided 2.04 times coverage of senior lien debt service and 1.61 times coverage of combined senior and junior lien debt service. After subtracting administrative cost allocation transfers to the General Fund, net revenue senior and total debt service coverage decline, but remain adequate at 1.84 times and 1.46 times, respectively. Annual senior lien debt service is scheduled to increase going forward to account for the sale of the current bonds and management projects further revenue growth pursuant to rate adjustments to meet the increasing requirements. On a post-transfer basis, management projects annual senior lien debt service coverage of between 1.54 and 1.68 times through fiscal 2017, which is supported by expected net revenue growth of about 1% per year, on average. Total debt service coverage is projected to range from 1.27 to 1.59 times debt service, which is narrow compared to similarly-rated enterprises.

Following the current sale, senior lien MADS is estimated at \$20.1 million and payable in fiscal 2027. Fiscal 2011 net revenues provide 1.48 times and 1.31 times post-sale senior lien MADS coverage on a pre- and post-transfer basis, respectively. Expected rate increases should result in a strengthening of MADS coverage in future years. The willingness to sufficiently address rates and maintain satisfactory coverage will continue to be a focal point in reviews of the enterprise going forward.

ABOVE AVERAGE DEBT PROFILE

The utility's debt ratio has historically exceeded median values due to steady borrowing to finance various capital improvements. Following the sale of bonds in calendar year 2008, the utility's debt ratio increased from 46.6% to 56.7% at the close of fiscal 2009. As debt has been paid down, the debt ratio declined modestly to 53.7% at the close of fiscal 2011. Following the current sale, the debt ratio will increase to approximately 57%. Favorably, the infrastructure of the system is relatively up-to-date and future borrowing is expected to be limited. To date, approximately 97% of sanitary and storm sewer lines within the service area have been separated and the system's total treatment capacity was recently increased to 61.1 million gallons per day, comparing favorably to average treatment volume of 42 million gallons per day in 2011.

Within the near term, the majority of capital improvements are expected to be financed with

available cash. Additional sewer revenue debt will likely be issued to finance completion of sanitary and storm sewer separation work, but management does not anticipate selling such bonds any earlier than fiscal 2016. Amortization of outstanding senior and junior lien revenue debt is scheduled such that 30% of principal will be repaid within ten years. All of the utility's debt is fixed rate and there is no exposure to interest rate swap agreements.

WHAT COULD CHANGE THE RATING - UP

- Significant expansion of the system's customer base and substantial improvement in general economic conditions
- Material growth in cash reserves and net working capital
- Significant strengthening of both senior lien and total debt service coverage levels

WHAT COULD CHANGE THE RATING - DOWN

- Material contraction of the system's customer base
- Reductions in cash reserves and net working capital to levels no longer commensurate with similarly-rated enterprises
- Weakened debt service coverage levels

KEY STATISTICS

System: Wastewater collection and treatment (closed loop)

Number of customer accounts (2012): 74,411

Fiscal 2011 net working capital: \$41.4 million (194.4% of O&M)

Fiscal 2011 unrestricted cash reserves: \$20.5 million (96.3% of O&M)

Fiscal 2011 operating ratio: 42.5%

Fiscal 2011 senior lien debt service coverage: 2.04 times (1.84 times following cost allocation transfers)

Fiscal 2011 post-sale senior lien MADS coverage: 1.48 times (1.31 times following cost allocation transfers)

Fiscal 2012 estimated senior lien debt service coverage: 1.79 times (1.69 times following cost allocation transfers)

Post-sale senior lien revenue debt outstanding: \$264.3 million

Junior lien revenue debt outstanding: \$18.4 million

Legal rate covenant: 1.20 times

RATING METHODOLOGY

The principal methodology used in this rating was Analytical Framework For Water And Sewer System Ratings published in August 1999. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

REGULATORY DISCLOSURES

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